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Cordley, F. R. & Co.,
Bankers, Boston

How the panic developed: remedies for the situation

[Washington?]

[1893?]

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F. R. CORDLEY & CO.,
BANKERS,
66 STATE STREET,
BOSTON.

Washington Series,
No. 6.

HOW THE PANIC DEVELOPED.

REMEDIES FOR THE SITUATION.

DEAR SIR :

Our last letter closed with the query : What was the shock that brought the financial card houses, or "cheap" money companies, and schemes, about the ears of their projectors ? We answer :

(1) The national credit had been yoked to the silver bullion purchase plan, by the so-called Sherman act. Nearly $150,000,000 of certificates issued for silver bullion, payable in gold, were a string on just so many Treasury gold dollars, the end hanging out to be pulled by every commercial exigency. (2) The imports of the year 1892 exceeded by $90,000,000 the exports, giving an adverse balance of trade. (3) European capitalists needed money to cover margins on Argentine and afterwards on Australian securities, and sold back ours—their only available assets—on the market.

There was a succesive and then a combined pull of these conditions on the string attached to the $150,000,000 of Treasury gold ; almost exactly that amount, net, of gold was exported in the three years of their operation—a total more than equal to the average, net total of Treasury gold during the same time.* The Treasury gold was kept partially good by withdrawals from the public's holdings, but public confidence was undermined in this operation. Then became evident what economists had declared—what these letters have constantly maintained, from the day the Sherman law was first proposed in Congress—that *continued silver purchase, within the minimum time required to measure the $600,000.000 of gold in the country, must replace the nation's entire stock of gold by a standard of value repudiated by the world*, and therefore a dead asset in the world's exchanges.

Fear lest the nation's standard of value be shifted from the world's standard to a depreciated one—excited by the facts just mentioned—augmented the selling movement abroad, and that in turn reacted on our own people with constantly increasing power. Then credits began to contract ; the water and gas began to be forced out of "cheap dollar" stocks and schemes ; the "day of judgment" literally, was ushered

*The total net export of gold from July, '90, to July '93, was $154,683,156 ; the net Treasury gold, June, '90, was (in round numbers) $190,000,000 ; June, '91, $117,000,000 ; June, '92, $114,000,000 ; and June, '93, $95,000,000.

in! As the lack of honest representative, or *intrinsic value* in one and another financial and industrial "cheap" money bubble became apparent, men's eyes were opened. Then, the open-mouthed: "Why! what next?" began. The expression of surprise has gone on for six months—an ever-growing *crescendo*, in which astonishment, followed by distrust, has deepened into terror, and ended in unreasoning panic.

The three above-named facts or conditions, with several minor adjuncts, may be termed *precipitants*—not *causes* of the panic.

"Cheap dollar" speculative "booms," West—"stock" and "financiering" enterprises, East—were food, or *fuel* for the panic. The formula—GENERAL CONFIDENCE *overdrawn* in account with CAPITAL STOCK—embraces its *phenomena*, East and West. But *want of confidence* is not *cause*. What is back of the phenomena? *What projected the shadow?*

Senator Butler said recently on the floor of the Senate: "I have heard a great deal about the *want of confidence* in the country, brought about by the Sherman act. The Sherman act had about as much to do with that want of confidence as a pebble in a mill pond has to do with stirring the water. It, is, unless we are all misinformed, a *want of honesty*—and we may as well speak plainly—and the sooner the country finds it out the better it will be for everybody." This statement followed out, leads back of the phenomena to their *cause*. The panic was, *first*, a general conviction of dishonesty in representative values, and business methods; *second*, a consequent *fear*, from *revolt of the general sense of honesty*, that called for *a halt*, and *inspection of each man's holdings*. The formula that embraces this *causative* action and its consequences, is—GENERAL SENSE OF HONESTY *overdrawn* in account with REPRESENTATIVE VALUE, protested the drafts, and forced *liquidation*.

For *a panic* in business, is a halt called by awakening moral sense, in arrest of multiplication (not creation, for dishonesty *creates* nothing) of false representative values, and in liquidation, more or less complete, of the misleading balance, preliminary to a fresh start from a more honest adjustment. A panic destroys nothing but false pretenses to value; its coming is neither a mystery nor a surprise to the observer of moral causes; it is remediable, as any other ill, through Scientific removal of the errors that temporarily mislead by false presentations.

Operations on the basis of *false representative value* are subject, finally—no matter how the balances in figures of profit and loss may stand in *our* ledgers—to correction by the balances that Principle strikes in which no "cheap" dollars are carried.

How does this bear on the present situation, and the way out of it?

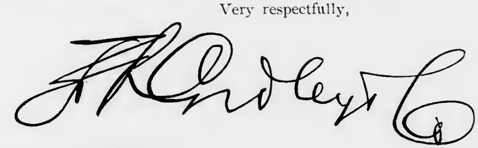
Efficacy of remedial measures is absolutely correlated with accuracy of diagnosis.

The present troubles have their *origin*—for there is no *causation* in error—in a belief that *false representative values* constitute WEALTH, and that multiplication of them consequent on universal desire for their possession, constitutes PROSPERITY.

Understanding of the supremacy of intrinsic value (defined as herein before) in all relations, transactions, and exchanges, and of *real business* methods as essentially *honest*, corrects such false conceptions.

The *special* remedies indicated from the diagnosis, are, (1) *Repeal of silver purchase;* this will efface the national endorsement, by statute, of business dishonesty which discourages or makes timid individual effort at correction of this fault. *Fear* occasioned by that pervading error, started liquidation, and the *hoarding* that threatens wider and chronic disaster, followed on it. Repeal, with the natural reaction towards honesty now setting in, will tend to restore money to the channels of trade and commerce, move the crops, and start the wheels of industry. (2) A settlement of all questions relating to the currency, in harmony with the pledges made in the platforms of both political parties in the recent presidential election,—including satisfaction to the just reclamations of the West and South, back of whose discontent there is real cause for complaint. To this end, (3) Eliminate from monetary and political discussions, in Congress and out of it, the pretensions of *the silver producer* and the "claims" made for the *product*. Confusion of the public thought, from the mixing of these with *the utilities* of silver as a circulating medium—the only matter that concerns legislation or public policy—has kept our communities, especially those of the West and South, in a perpetual turmoil over false issues. From this pernicious union, kept up to further supposed interests of both political parties, the bastard "compromise" has come. Let the *proven requirements of the community*, be the only elements taken into account in adjustment of the relations of the two metals, and this union, and its unfortunate results, will cease to confuse and perplex the public mind.

Very respectfully,



THE ARLINGTON,
WASHINGTON, D. C., *September 5th, 1893.*

NOTE.—As the "proof" of this letter is sent to the printer, the following telegram is received, from a Boston correspondent: "Please tell us in Washington Series No. 6, how the Government protects the gold producer, puts a bounty upon his product, and then legislates to advance its value."

These letters do not aim at exhaustive discussion of economic questions. In the next two numbers, however, measures relating to the monetary situation, pending before Congress, will be considered: the above question will be incidentally answered.

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